

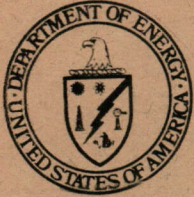
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AUDIT OF EFFECTIVENESS AND EFFICIENCY OF THE ROCKY FLATS ANALYTICAL SERVICES PROGRAM

A 3x10 grid of letters 'I' and 'G' on a light brown background. The letters are arranged in a repeating pattern. The third row, second and third columns are filled with solid black, while the others are outlined.

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AUDIT OF EFFECTIVENESS AND EFFICIENCY OF THE
ROCKY FLATS ANALYTICAL SERVICES PROGRAM

Report Number: CR-B-95-01
Date of Issue: November 3, 1994

Capital Regional Audit Office
Germantown, Maryland 20585

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDITS

AUDIT OF EFFECTIVENESS AND EFFICIENCY OF THE
ROCKY FLATS ANALYTICAL SERVICES PROGRAM

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Audit Report Number: CR-B-95-01

SUMMARY

The Management and Operating (M&O) Contractor at Rocky Flats is responsible for acquiring or providing for the laboratory analyses of a large number of samples. These analyses are required to support the Plant's environmental restoration and waste management mission and for worker health and safety programs. Because of the large dollar value associated with analyses of samples and previously reported problems at other sites, we sought to determine whether the M&O contractor had evaluated alternative sources of supply when determining the most cost effective and efficient method of obtaining analytical services.

We found that the M&O contractor at Rocky Flats did not evaluate alternatives to contractor-provided analytical services. Instead, the contractor used in-house laboratories to provide analytical services when less expensive and more efficient services were available from subcontract laboratories. As a result, three major programs will incur unnecessary charges of about \$2.9 million annually and be required to accept data that is not as timely or reliable as that available from alternative sources.

These excessive charges will be incurred because Departmental contracting officials at Rocky Flats did not require the M&O contractor to evaluate alternatives and document that it chose the best method of providing services. As a result, the contractor continued using in-house laboratories to provide analytical service despite indications that such an arrangement was not cost effective or efficient.

We believe that our review illustrates the value of periodic evaluations of the contractor's decisions to furnish laboratory analytical services. As recognized in the Report of the Contract Reform Team, such evaluations should enable Rocky Flats to obtain quality performance at the least cost. Such

reviews should also focus management's attention on in-house laboratory efficiency problems. The estimated \$2.9 million annual savings to programs demonstrates the importance of such evaluations.

The Manager of the Rocky Flats Field Office did not agree with our finding or recommendation, but did agree with some of the information on which it was based. Management did, however, agree to require the M&O contractor to perform the make-or-buy analysis contemplated by our recommendation.

Office of Inspector General
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PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Rocky Flats Field Office is a former nuclear weapons manufacturing facility that has been transferred to operational control of the Environmental Restoration and Waste Management Division. The Management and Operating Contractor (M&O) for the Office is now actively engaged in characterizing and remediating radioactive, nonradioactive and hazardous contamination that resulted from weapons production activities.

The purpose of this audit was to determine whether the Rocky Flats Field Office was managing its laboratory analytical services program in an effective and efficient manner. Specifically, we sought to determine whether the M&O contractor's method of providing laboratory analytical services was appropriate.

Our audit also sought to determine whether problems with the cost and quality of laboratory analytical services previously reported by the Inspector General had been resolved. Problems related to the quality of analytical services were reported in OIG-0293, "Audit of Laboratory Support to the Environmental Survey Program," and those related to excessive costs were reported in OIG-0295, "Cost of Environmental Survey Testing."

SCOPE AND METHODOLOGY

The audit was performed from January through April 1994. Field work was performed at the Rocky Flats Field Office from January 3 to 12, 1994, and from April 5 to 15, 1994. Our review covered those samples with low levels of radioactivity that were readily amenable to offsite analysis. We considered all such analytical services performed during the first and second quarters of Fiscal Year 1994 for cost comparison purposes. We also considered all analyses performed during Fiscal Year 1993 when evaluating whether analyses were timely and reliable. Our review included an evaluation of Rocky Flats Field Office's policies and procedures related to the requirement for and methods of providing laboratory analytical services. We evaluated contractor operated laboratory charges for analytical services by comparing them to those available from subcontract commercial laboratories for like-kind samples and analyses.

The audit was made in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed the internal controls with respect to the requirement to evaluate whether alternative methods of providing laboratory analytical services were more cost effective and efficient than contractor furnished services. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed.

We did not formally assess the reliability of computer processed data because we did not consider that it was crucial to accomplishing our audit objective. We did, however, use such data for limited purposes and performed alternative procedures sufficient to satisfy ourselves that such data was competent.

The Rocky Flats Field Office waived the exit conference.

BACKGROUND

The M&O contractor at Rocky Flats is responsible for acquiring or providing for the laboratory analyses of a large number of samples. These analyses are required to support the Plant's environmental restoration and waste management mission and for worker health and safety programs. Samples submitted for analyses cover natural matrices such as air, water and soil, in addition to a wide range of man-made or production by-product materials. Employee radiation exposure monitoring involves the analysis of bodily fluids and fecal material.

Because of the large dollar value associated with analyses of samples and previously reported problems at other sites, we sought to determine whether the contractor's decision to furnish required analyses was based on sound economic reasoning. We specifically examined whether the M&O contractor had evaluated alternative sources of supply when determining the most cost effective and efficient method of obtaining analytical services.

OBSERVATIONS AND CONCLUSIONS

Our audit disclosed that the M&O contractor at Rocky Flats did not evaluate alternatives to contractor-provided analytical services. Instead, the contractor used in-house laboratories to provide analytical services when less expensive and more efficient services were available from subcontract laboratories.

As a result, three major programs will incur unnecessary charges and be required to accept data that is not as timely or reliable as that available from alternative sources.

These excessive charges will be incurred because Departmental contracting officials at Rocky Flats did not require the M&O contractor to evaluate alternatives and document that it chose the best method of providing services. As a result, the contractor continued using in-house laboratories to provide analytical service despite indications that such an arrangement was not cost effective or efficient.

We believe that our review illustrates the value of periodic evaluations of the contractor's decisions to furnish laboratory analytical services. As recognized in the Report of the Contract Reform Team, such evaluations would enable Rocky Flats to obtain quality performance at the least cost. Such reviews should also focus management's attention on in-house laboratory efficiency problems. The estimated \$2.9 million annual savings to programs demonstrates the importance of such evaluations.

The Manager of the Rocky Flats Field Office did not agree with our finding or recommendation, but did agree with some of the information on which it was based. Management did, however, agree to require the M&O contractor to perform the make-or-buy analysis contemplated by our recommendation.

Failure to adequately monitor and control costs represents an internal control weakness that should be considered by management in preparing the year-end assurance memorandum on management controls.

PART II

FINDING AND RECOMMENDATION

Acquisition of Analytical Services

FINDING

The Management and Operating (M&O) contractor at Rocky Flats was required to evaluate alternatives and select the most cost effective and efficient method of providing needed services. The contractor, however, did not evaluate alternative sources and used in-house laboratories to provide analytical services when less expensive and more efficient services were available from subcontract laboratories. This condition existed because the Department did not require the contractor to demonstrate that it evaluated alternatives and used the least costly and most efficient method of furnishing services. As a result, three major Rocky Flats programs will incur about \$2.9 million in unnecessary charges during Fiscal Year 1994 and will be required to accept analytical data that is less timely and reliable.

RECOMMENDATION

We recommend that the Manager, Rocky Flats Field Office, require the M&O contractor to evaluate acquisition practices to ensure that cost, quality, and timeliness are considered in deciding whether to provide or subcontract for laboratory analytical services. This evaluation should include:

1. performing cost comparisons between contractor provided and alternative sources of services;
2. evaluating whether efficiency improvements over contractor-provided services such as timeliness of delivery and quality are available from alternative sources; and
3. documenting the support used for selecting how analytical services will be provided.

MANAGEMENT REACTION

Management did not agree with the finding or recommendation, but did agree with some of the information on which it was based. Management did, however, agree to require the contractor to perform the make-or-buy analysis contemplated

by our recommendation. Management's proposed action is responsive to our recommendation in that respect. A summary of management's comments and our responses are included in Part III of this report.

DETAILS OF FINDING

REQUIREMENTS FOR PROVIDING NECESSARY SERVICES

M&O contractors are required to use prudent business judgment by applying their best technical and managerial expertise in operating Departmental facilities. The Department's management and operating contract for the Rocky Flats Plant requires the contractor to use its best effort to manage and operate that facility. The contractor is responsible for furnishing laboratory analytical services required for Plant operations in a cost effective and efficient manner.

The Department of Energy Acquisition Regulation (DEAR) (Section 970.7104-8(b)) also requires contracting officers to ensure that M&O contractors evaluate whether to provide services directly or obtain them through subcontracting. This regulation requires that factors such as cost and efficiency be considered when determining the best method for providing needed services.

METHODS OF PROVIDING ANALYTICAL SERVICES

The M&O contractor at Rocky Flats used in-house facilities to provide laboratory analytical services even though less costly, better quality, and more timely services were available from subcontract laboratories. Despite indications that its division of analysis responsibility between in-house and subcontract laboratories was not cost effective or efficient, the contractor did not evaluate whether it should modify the division.

Division Of Analyses Responsibility

Representatives of the M&O contractor's Analytical Laboratories Division reported that during 1989, management decided to divide analytical work between in-house and subcontract laboratories. The analyses of most environmental restoration samples were to be performed by subcontract laboratories while analyses for the waste identification, surface water monitoring and bioassay programs were retained at in-house laboratories. This division of analytical work was

based on short-term capacity problems and the public's lack of confidence in analyses performed by Rocky Flats' laboratories.

Despite subsequent indications that its allocation of analytical work between in-house and subcontract laboratories was not cost effective or efficient, the contractor did not evaluate whether to continue the arrangement. For example, we found that the contractor did not follow up on internal studies that indicated significant savings and efficiency improvements could be realized by moving certain analyses from in-house to subcontract laboratories.

Contractor officials acknowledged that they had not formally evaluated whether potential savings and quality improvements detailed in these internal studies could be realized. Management stated that one of the studies prepared by a program manager demonstrated that surface water analysis could be done at subcontract laboratories "at about a \$1 million savings." Management did not explain why the recommendation was not implemented. Another internal study documenting excessive in-house laboratory charges and quality problems in the bioassay program was used only for discussion purposes and was never officially released.

The M&O contractor also did not take advantage of its favorable experience gained in subcontracting for the analyses of environmental restoration samples. Contractor officials with the Environmental Restoration Sample Management Office stated that they had subcontracted for over 80,000 analyses per year that were less expensive, more timely, and of better quality than those available from in-house laboratories. Program and in-house laboratory managers stated that they were aware of these successes and acknowledged that in-house laboratories were no longer competitive. The M&O contractor, however, continued to use in-house laboratories up to their full capacity.

CONTROLS OVER M&O CONTRACTOR PROCUREMENT DECISIONS

Departmental contracting officials at Rocky Flats had not required the M&O contractor to demonstrate that it evaluated alternatives and utilized the most cost effective and efficient method of providing analytical services. These evaluations were not performed because the contracting officer did not ensure that the M&O contractor's purchasing system included procedures requiring the evaluation of alternatives to contractor provided services.

The Rocky Flats Field Office acknowledged that the M&O contractor had not been required to include such procedures in its purchasing system. Prior to our audit, the contractor had been directed to perform make-versus-buy analyses for certain construction projects, but that direction did not extend to services. After our audit work was initiated, however, the M&O contractor's procurement activity was directed to develop a policy requiring such evaluations for services, including analytical services.

EFFECT OF NOT EVALUATING ALTERNATIVES

As a result of not evaluating alternatives to the continued use of in-house laboratories, selected Rocky Flats programs will incur unnecessary charges and will be required to accept unreliable and untimely analytical data. Based on our analysis, we estimate that the waste identification, surface water monitoring and bioassay programs will incur avoidable charges of about \$2.9 million during Fiscal Year 1994. We also identified instances in which analytical data provided by in-house laboratories was not as timely or reliable as that available from alternative sources.

Available Cost Savings

Our analysis indicated that substantial savings could be realized by transferring selected analyses to subcontract laboratories. We based our savings projections on a comparison of prices available from subcontract laboratories to estimated in-house costs to complete Fiscal Year 1994 analyses. Incremental costs that would be incurred if these analyses were transferred to subcontract laboratories were added to subcontract laboratory analyses costs in arriving at total offsite costs. Such incremental costs were for shipping and handling, M&O procurement service charges, contract laboratory audit expenses, and additional radiation screening charges. Estimated annual savings available to each program are detailed in the following table:

<u>PROGRAM ELEMENT</u>	<u>IN-HOUSE COSTS</u>	<u>OFFSITE COSTS</u>	<u>SAVINGS AVAILABLE</u>
Waste Identification	\$2,354,454	\$922,832	\$1,431,622
Surface Water Monitoring	2,726,729	1,448,000	1,278,729
Bioassay Program	<u>1,599,343</u>	<u>1,388,791</u>	<u>210,552</u>
<u>TOTALS</u>	<u>\$6,680,526</u>	<u>\$3,759,623</u>	<u>\$2,920,903</u>

These projected savings do not consider charges of about \$420,000 per year for depreciation of onsite laboratory plant and equipment. We recognize that, at least in the short term, depreciation costs will be incurred regardless of whether the plant and equipment is used.

Quality And Timeliness Of Analyses

In-house laboratories were also unable to provide consistently reliable and timely reports of analysis. Unreliable results and high sample rerun rates were observed in the bioassay program. We also observed that total sample analyses and reporting times for both the bioassay and waste identification programs exceeded those available from subcontract laboratories.

Bioassay Program Quality Problems

An evaluation of alternatives should also have focused management's attention on problems experienced by in-house laboratories in analyzing bioassay samples. Deviations from prescribed preparation methods and cross contamination caused the bioassay laboratory to experience a large number of sample analyses failures. In contrast to a 3 percent rate allowed for subcontractors, in-house analyses failure rates averaged about 24 percent, with a 60 percent one month high, during Fiscal Year 1993. This inability to analyze samples properly increased the risk to the Department that worker exposure may not be properly quantified and limited the reliance that could be placed on the Rocky Flats Radiological Health Protection Program.

Timeliness Of Sample Reporting

M&O contractor operated laboratories at Rocky Flats were not always able to report results of analyses within the time period available from subcontract laboratories. As required by their contracts, subcontract laboratories deliver results of analyses within one month of sample receipt. We noted, however, that a substantial number of analyses performed by in-house laboratories were not reported within that period. For example, about 67 percent of waste identification samples exceeded the one month period, and some remained in the laboratory for over one year. Routine bioassay samples exceeded the one month delivery time by over 80 percent. The extent of this problem is detailed in the following table:

<u>PROGRAM ELEMENT</u>	<u>TOTAL SAMPLES</u>	<u>SAMPLES EXCEEDING ONE MONTH</u>	<u>PERCENTAGE EXCEEDING ONE MONTH</u>
Waste Identification	437	293	67.1
Bioassay	<u>1,272</u>	<u>1,076</u>	84.6
TOTALS	<u>1,709</u>	<u>1,369</u>	81.8

Overall, our analysis demonstrates that periodic evaluations of the contractor's decisions to assure that cost, quality, and timeliness are fully considered in acquiring laboratory analytical services is necessary and useful. These evaluations should identify available savings and focus management's attention on in-house laboratory efficiency problems. The estimated \$2.9 million annual savings and the projected \$14.6 million five-year savings demonstrates the significance of benefits obtainable to programs.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Management did not agree with our finding or recommendation, but did agree with some of the information on which it was based. Management did, however, agree to require the contractor to perform the make-or-buy analysis contemplated by our recommendation. Management's proposed action is responsive to our recommendation in that respect. Detailed management and auditor comments follow.

Management Comments. Management stated that there is no disagreement that a make-or-buy analysis regarding analytical services is appropriate. The finding, however, is overly simplistic and does not demonstrate an appreciation of all the factors which should be considered when making such a determination. The report disproportionately concentrates on cost and efficiency and does not address other considerations specified by the DEAR. The report also does not take into account potential but undocumented costs associated with the return or disposal by commercial laboratories of unused samples or laboratory generated waste.

Auditor Comments. We also agree that a make-or-buy analysis is required, however, we believe that we did consider all pertinent factors. Although we did not include a discussion of each factor set forth in DEAR Section 970.7104-8, we specifically considered the relevance of each factor to the make-or-buy analysis for analytical services. We believe that the factors relating to "efficiency of performance, scheduling, and control of production or performance" are fairly addressed in our report. We investigated the factor related to "classification and security" and found that it would not impact offsite analyses for the programs reviewed. We also considered the final factor, "maintenance of management and operating contractor capability," and elected not to include a discussion regarding it. We felt that the maintenance of contractor capability to perform more expensive, less timely, and less reliable analyses was not appropriate when those services were available from commercial sources.

Unless the situation has changed from that observed by us during the audit, we do not believe that potential charges for the return or disposal of unused sample and laboratory generated waste are pertinent to a make-or-buy analysis. During our visit, contractor officials informed us that Rocky Flats rarely accepted the return of unused samples from

subcontract laboratories. They also stated that commercial laboratories include disposal charges in their fixed unit-price per analysis bids. An official in the waste identification program also informed us that commercial laboratories are able to dispose of unused samples themselves because they contain low levels of radioactivity. Samples with higher levels of radioactivity are analyzed at onsite laboratories because the return of sample waste would conflict with the Plant's Resource Conservation and Recovery Act Permit.

Management Comments. Management stated that even though the contractor did not prepare a comprehensive make-or-buy study for Departmental review, it demonstrated adequate analysis of its decision in the area of analytical services. The finding failed to consider a cost-benefit analysis prepared by the contractor during October 1992 and other studies prepared by work package managers.

Auditor Comments. It is our opinion that the contractor's after-the-fact justification of its actions is insufficient to demonstrate that its decision regarding the division of analytical responsibility was appropriate. As recognized by the Report of the Contract Reform Team, detailed make-versus-buy plans should be prepared by contractors and closely scrutinized by Departmental officials to eliminate the bias inherent in a contractor's decision to perform services themselves. Departmental contracting reform initiatives directed at utilizing firm-fixed price contracts whenever possible makes this type of oversight essential.

We specifically considered the October 1992 study as well as work package budget justifications for each program reviewed. The October 1992 study was extensively reviewed by the audit team. We found the study to have the following limitations:

1. Management informed us that the subcontracting situation and offsite laboratory performance had improved dramatically since the preparation of the study. A number of assertions regarding subcontractor costs and problems were no longer viable.

2. The study was conducted in response to a Notice Of Violation from the State of Colorado and was not the result of a contractor initiative.

3. At the time of our review, management informed us that the study was based on unburdened labor rates and would not allow recovery of overhead.

We also specifically considered studies prepared by work package managers for the surface water and bioassay programs. These studies demonstrated available cost savings in both programs and identified the quality and timeliness problems in the bioassay program. Such a study was not prepared for the waste identification program.

Management Comments. Management found the finding oversimplistic and stated that it did not demonstrate an appreciation of important, additional factors that had a significant impact on the contractor's decision to not use subcontracted analytical services. Specifically, the report did not recognize that the contractor may be subject to significant fines and penalties if analyses were done improperly, and that the risk in this area could outweigh the cost advantage of using subcontract laboratories.

Auditor Comments. We agree that the contractor could be subject to fines or penalties if it knowingly used defective or indefensible analytical data. Management, however, did not adequately explain, and we do not understand how this fact affected the contractor's decision to retain selected analyses onsite. The contractor's current level of subcontracting for analytical services demonstrates that it is comfortable with the ability of commercial laboratories to perform as required. Program officials, both Departmental and contractor, expressed no concerns with the ability of subcontract laboratories to perform as required. On the contrary, these officials stated that laboratories then under contract provided high quality results of analyses in a timely manner.

Management Comments. Management expressed concern that our report did not consider the potential for labor unrest should subcontracting for laboratory analytical services increase. They note that the current Collective Bargaining Agreement requires that every reasonable effort be made to utilize the resources and capabilities of the Plant [prior to subcontracting work]. Management believed that additional union grievances would most likely result should there be further privatization of laboratory analytical services. In addition, management believed that such grievances may be complicated by the requirement in Section 3161 of the National Defense Authorization Act of 1993 to accomplish workforce restructuring through mechanisms "that minimize layoffs."

Auditor Comments. While we appreciate that labor unrest and employee grievances may increase as privatization of services increase, we believe they are inevitable consequences of contract reform initiatives that call for the use of firm fixed-price contracts for environmental and other work whenever possible. This initiative will require that many services that have historically been performed by M&O contractors be subcontracted to specialized contractors that offer less costly and better quality services. We do not believe, however, that arbitrators of these grievances would necessarily find against the contractor. We take this position because we do not believe that providing services that are more costly and less reliable than those available from commercial laboratories is "reasonable."

We also do not believe that Section 3161 of the National Defense Authorization Act of 1993 would prohibit workforce reductions necessitated by the increased use of commercial laboratories. The thrust of this legislation is to require that workforce reductions be planned and executed orderly, after coordination with impacted groups and individuals, through mechanisms that minimize layoffs. The Rocky Flats Field Office has completed the plan required by Section 3161, and it is in place. Modifications required to effect upcoming workforce reductions are currently underway. While we have not reviewed these plans, we anticipate that where possible Rocky Flats will employ restructuring mechanisms that "minimize layoffs."

Management Comments. Management disagreed with the estimated savings for several reasons. They believed that the estimates were unreliable because they were extrapolated from a period of inordinately high costs caused by work force restructuring. Management suggests that the cost of general plant overhead borne by onsite laboratories should have been excluded when comparing onsite costs to those available from subcontract laboratories. Management proposes to implement a system of direct charging that allows for fixed unit-charge pricing for all programs that require analyses. Management also asserts that subcontracting for analytical services would create a false economy because the cost of maintaining onsite labs is largely fixed. Management finally suggests that the Office of Inspector General participate in a joint review of program cost estimates as they are developed before attempting to calculate cost savings.

Auditor Comments. We believe that our estimate of savings is accurate as presented. Our assessment of onsite laboratory productivity does not support management's contention that our

savings calculation was based on a period of inordinately high costs. Our assessment for the waste identification program established that during the period under review the average laboratory charge per report and per analysis decreased over the previous six-month period. Hours charged per analytical report and per analysis were 41 and 17, respectively, during the six-month period immediately preceding our review, but declined to 28 and 13 hours, respectively, for the period under review.

We do not concur with management's assertion that Plant overhead charges are not properly includable in onsite laboratory costs. We also do not concur with management's plan to convert the laboratories to any costing structure that does not provide for full cost recovery. Further, we do not believe that relieving the laboratories of the responsibility for recovering overhead is appropriate. Such a recovery method would result in overhead charges being distributed to other programs that do not necessarily benefit from the results of these analyses.

Our opinion regarding the inclusion of general overhead in laboratory costs is not based solely on audit evidence gathered at the Rocky Flats Plant. We observed that contractors at the Oak Ridge and Savannah River Operations Offices recovered fully burdened costs and remained competitive with commercial laboratories. We do recognize that some portion of the overhead currently borne by the onsite laboratories could be shifted to other programs should subcontracting for analytical services increase.

We also do not agree with management's suggestion that the cost of operating the onsite laboratories is largely fixed. Management's position assumes that the Department would continue to operate a facility with the same staff level even when its work load is assumed by commercial laboratories. We believe, however, that plant and equipment costs are sunk, and that other costs of operation are variable. As onsite work load declines, variable direct costs and some portion of general overhead will eventually decline. We do recognize that costs may increase during transition periods.

While we appreciate management's invitation to participate in reviews of contractor cost estimates, we must respectfully decline. Our function is to aid management in fulfilling its responsibilities and not to assume its role.

Management Comments. Management felt that the report overlooked improvements made in the timely reporting of results of analyses by in-house laboratories.

Auditor Comments. We acknowledge that performance data submitted by management indicates that corrective actions taken subsequent to our site visit have resulted in improvements in the timeliness and quality of bioassay sample analyses.

Management Comments. Management stated that the comparison of in-house to subcontract laboratory analyses turnaround times is not appropriate because it does not take into consideration the fact that in-house laboratories are more responsive to customer prioritization of analyses. They believed that our comparison did not take into consideration major impacts on turnaround times and service charges caused by the necessity to respond to priority changes. Management stated that onsite laboratories were customer service oriented and would be better able to accommodate priority changes when customer requirements were in conflict. They also believed that commercial laboratories' priority decisions would most likely be governed by financial considerations.

Auditor Comments. We believe that our comparison of turnaround times was appropriate. Subcontract laboratories which we visited or contacted asserted that they were able to provide the same level of prioritization of customer samples as the onsite laboratories.

We are unable to comment specifically on management's contention that responding to priority changes adversely impacted costs and turnaround times. Laboratory and program managers did not raise this issue during our review of cost and timeliness issues.

We also do not believe that commercial laboratories would subordinate the Department's interests to others. In our opinion, the commercial laboratory industry is extremely competitive, and laboratories go to great length to maintain valuable customers such as the Department. In addition, sample management officials told us that they maintained a pool of qualified commercial laboratories that should satisfy just such contingencies.

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